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by Danny Leung and Luke Rispoli
Economic Analysis Division

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The following symbols are used in Statistics Canada publications:

.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0^s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
^{p}	preliminary
^{r}	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
^{E}	use with caution
F	too unreliable to be published
*	significantly different from reference category ($p < 0.05$)

The Growth of Large Firms in Canada

By Danny Leung and Luke Rispoli

This article in the *Economic Insights* series reports on the size distribution of Canadian firms compiled for the research paper *Small, Medium-sized, and Large Businesses in the Canadian Economy: Measuring Their Contribution to Gross Domestic Product from 2001 to 2008*. The creation of estimates of gross domestic product by firm size is part of a program at Statistics Canada that examines the structure of the Canadian economy and its evolution.

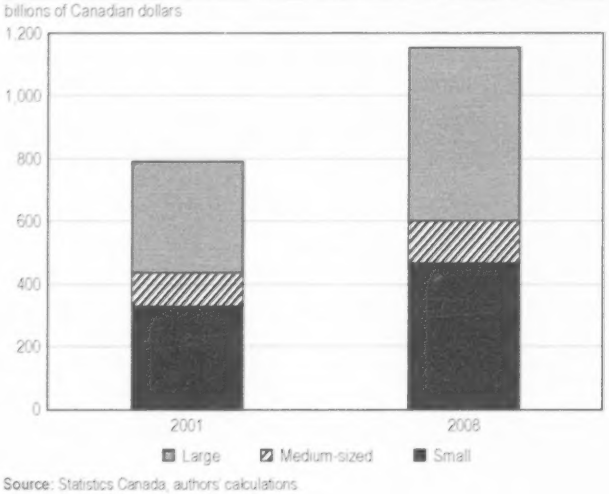
The resource boom and the appreciation of the Canadian dollar that took place in the 2000s were accompanied by several notable changes in the Canadian economic landscape. In particular, there was a shift in the relative performance of the manufacturing sector and the mining and oil and gas industry and in the relative performance of the different regional economies. Changes can also be seen in the composition of gross domestic product (GDP) by firm size (Chart 1).

Between 2001 and 2008, large firms in Canada grew at an annual rate of 6.5%, increasing their total GDP from $356.6 billion to $554.2 billion.[1] This pace was faster than that of medium-sized firms, whose total GDP rose from $104.2 billion to $133.0 billion (3.5% average annual growth), and of small firms, whose total GDP increased from $331.7 billion to $469.5 billion (5.1% average annual growth).

The contribution of large businesses to Canadian business-sector GDP rose by 2.9 percentage points, from 45.0% in 2001 to 47.9% in 2008. In contrast, the contribution of small businesses fell by 1.3 percentage points, from 41.9% to 40.6%, and the contribution of medium-sized businesses fell by 1.6 percentage points, from 13.1% to 11.5%.

The changing importance of small, medium-sized, and large businesses in the 2000s is of interest, given the well-documented difference in the remuneration of workers between large and small firms and differences in labour productivity across different-sized firms.

Chart 1
Gross domestic product by firm size, 2001 and 2008



Source: Statistics Canada, authors' calculations

Small, medium-sized, and large firms, according to gross domestic product

Consistent with tradition, small, medium-sized, and large firms are defined here by their employment. Small firms are firms with 0 to 99 employees; medium-sized firms are those with 100 to 499 employees; and large firms are those with 500 or more employees.[2]

Previous studies relied on employment and payroll values to ascertain the relative importance of different-sized firms. While this can be appropriate in some instances, employment is an input to the production process, rather than a measure of output or production. Here, the traditional production measure, GDP, is employed to more fully delineate the importance of different groups of firms in the business sector. GDP reflects the payments made to both labour and capital and, therefore, is more comprehensive than measures that focus only on the labour component. For the first time, a firm-size-based measure of GDP by industry is available for the years spanning 2001 to 2008.

1 GDP is measured at basic prices and is in nominal values.

2 The employment size of a firm here is the employment size of the ultimate parent enterprise to which the firm belongs. The ultimate parent enterprise is the entity in a legal structure that controls through majority ownership one or more enterprises or businesses. The ultimate parent enterprise is used to group businesses since it makes decisions for the group of enterprises that it owns and controls.

Table 1
Share of nominal gross domestic product by firm size, 2001 and 2008

	Small		Medium-sized		Large	
	2001	2008	2001	2008	2001	2008
	percent					
Business sector	**41.9**	**40.6**	**13.2**	**11.5**	**45.0**	**47.9**
Higher large-firm concentration						
Utilities	3.6	2.6	5.0	4.8	91.4	92.6
Mining	13.7	8.6	16.9	8.5	69.4	82.9
Information	12.8	10.3	11.6	7.6	75.5	82.1
Manufacturing	20.0	25.5	18.7	18.3	61.4	56.2
Transportation	38.8	33.5	14.5	12.7	46.7	53.8
Arts and entertainment	43.2	39.6	13.8	10.4	43.0	49.9
Finance	47.4	44.8	7.5	6.9	45.1	48.3
Total	26.7	25.0	13.9	10.9	59.4	64.1
Lower large-firm concentration						
Retail	51.4	46.3	9.7	9.7	38.9	43.9
Wholesale	46.9	40.0	17.5	17.8	35.6	42.2
Administrative	50.0	44.2	18.0	15.6	31.9	40.3
Professional	57.2	57.4	13.9	12.7	28.9	29.9
Accommodation and food services	65.5	61.5	16.1	15.5	18.4	23.0
Construction	77.5	72.7	10.2	13.2	12.3	14.1
Other services	82.1	81.0	6.7	7.9	11.2	11.0
Education	75.1	79.1	7.6	10.1	17.2	10.9
Health	83.9	82.4	8.0	6.8	8.1	10.8
Agriculture	90.7	92.8	3.8	3.7	5.5	3.5
Total	64.0	60.6	12.0	12.3	24.0	27.1

Source: Statistics Canada, authors' calculations

In the accompanying study,[3] GDP measures are calculated for firms in the business sector. The business sector is composed of all for-profit corporate businesses and unincorporated enterprises, as well as all other entities that produce goods and services for sale at a price intended at least to approximate the costs of production. Income trusts are included in the business sector, as are government business enterprises such as Canada Post.

Increased profits fuel large firm growth

Over the 2001-to-2008 period, large firms increased their share of GDP. They generated 45.0% of business-sector GDP in 2001 and 47.9% of business-sector GDP in 2008.

The large-business share of GDP varied across the two major components of GDP—gross operating surplus versus labour income. Large businesses accounted for the majority of gross operating surplus and supplementary labour income, but for less than half of overall labour income and indirect taxes on production less subsidies. Over time, large businesses increased their share of both these components of GDP. The large-business share of operating surplus increased markedly, from 59.4% in 2001 to 65.4% in 2008, while the large-business share of labour income grew slightly, from 41.0% to 41.6%, over the same period. Large businesses increased their contribution to GDP primarily because they increased their share of gross operating surplus, which is comprised primarily of corporation profits.

Contributions to gross domestic product by firm size differ by industry

In Canada, large businesses are relatively more important in industries that require substantial capital. They account for a larger share of GDP in infrastructure industries (including utilities, communications, and transportation), resource-based industries (including mining and oil and gas), and manufacturing.

There are considerable differences across industries in the size of the large-firm share of GDP (Table 1). The range extends from 93% in utilities to less than 4% in agriculture. Industries are divided here into one group consisting of 7 industries in which large firms comprise a substantial share (around 50% and above) and another group consisting of the remaining 10 industries.

The group of industries with the highest large-firm shares increased these shares from 59% to 64% on average between 2001 and 2008. Notable increases occurred in the mining, oil and gas, finance, information, arts and entertainment, and transportation industries within this group. The increase in the growth of large businesses in mining and oil and gas occurred during the resource boom that started in 2002.

3 See Leung et al. (2012).

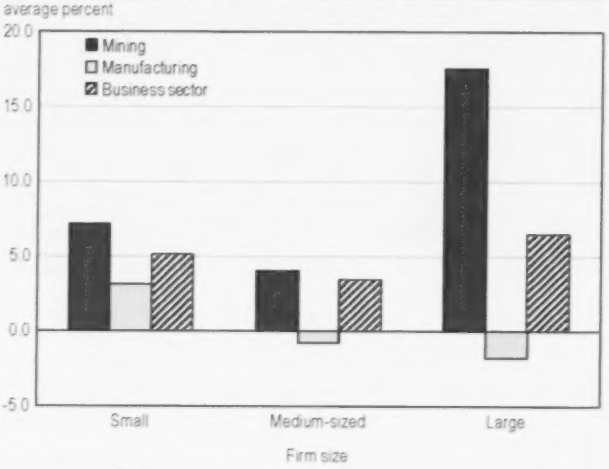
Manufacturing exhibits a contrasting pattern to the other industries in the top group. The decline in manufacturing GDP over the 2001-to-2008 period that accompanied the rapid appreciation of the Canadian dollar relative to the U.S. dollar occurred mainly in large businesses. The share of large firms in manufacturing declined from 61% to 56%. There was also an absolute decline in GDP. The manufacturing GDP of large manufacturing businesses declined at an average rate of 1.8% per year between 2001 and 2008. In contrast, small-sized manufacturing businesses were able to grow their GDP by an average of 3.1% a year.

A structural shift towards resources and away from manufacturing

The resource boom that took place after 2001 and the accompanying appreciation of the Canadian dollar both contributed to changes in the relative importance of large businesses in the Canadian economy. The increase in output prices for resources contributed to an increase in nominal GDP in the resource sector. The mining and oil and gas industry accounted for about half of the increase in business-sector GDP for large firms between 2001 and 2008. Within the mining and oil and gas industry, 91.3% ($87.0 billion) of the $95.3 billion increase in nominal GDP came from the same large businesses (Chart 2). Small and medium-sized firms grew, but not at the same pace as their larger counterparts. The contribution of large mining and oil and gas extraction firms increased within the Canadian economy and within their own industry.

At the same time that higher resource prices were increasing the return on capital and gross operating surplus, and hence nominal GDP, in the mining and oil and gas industry, manufacturing firms faced higher input costs and an appreciation of the Canadian dollar. Nominal GDP in the manufacturing sector fell by $6.3 billion between 2001 and 2008. This decline can be accounted for entirely by the $12.9 billion fall in manufacturing GDP in the large-business category, which contains the manufacturing firms most likely to be exporters.

Chart 2
Average annual growth by firm size, mining and oil and gas extraction versus manufacturing, 2001 to 2008



Source: Statistics Canada, authors' calculations.

References

This article in the *Economic Insights* series is based on research carried out by the Economic Analysis Division of Statistics Canada. For more information, please see:

Leung, D., L. Rispoli and R. Chan. 2012. *Small, Medium-sized, and Large Businesses in the Canadian Economy: Measuring Their Contribution to Gross Domestic Product from 2001 to 2008*. Statistics Canada Catalogue no. 11F0027M. Ottawa, Ontario. Economic Analysis (EA) Research Paper Series. No. 082.